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1. USG has reviewed US-Italian civil aviation relations in response to request made by President Saragat to President Johnson on September 19, 1967. The Ambassador is requested to transmit letter to Foreign Minister Fanfani in reply to President Saragat's intervention reading as follows: (original of letter signed by Secretary Rusk airpouched today.)

Dear Mr. Minister:

You will recall that, on September 19, President Saragat expressed to President Johnson the Italian Government's concern over the present civil aviation relations between our two countries. President Saragat stressed the belief that the former Air Transport Agreement of 1948 between Italy and the United States contained what he regarded as less generous terms than appear in the United States agreements with the Federal Republic of Germany, France, and the United Kingdom. His remarks suggested that the 1948 Agreement,

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Drafted by: E/OA/AL:ECRodriguez	Tel. Ext.	Telegraphic transmission and classification approved by:
AIS:MBlake:L/E:PFPalmer:slm 11/21/67	2924	The Secretary

Clearances:

EUR - Mr. Leddy AIS - Mr. Stabler E/TT - Mr. Loy

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which was renounced by Italy last year, had been in the nature of an armistice settlement, flowing from the conditions prevailing after World War II. As President Johnson assured him, this matter has again been carefully considered, and he has now asked me to convey the following comments.

First, let me give you the sincerest assurances that the Agreement renounced by Italy last year has never been considered by the United States to be an armistice arrangement with respect to its operating principles, nor an armistice settlement with reference to the air routes it authorized. The 1948 Air Transport Agreement was not related to the Treaty of Peace, but was instead a bilateral arrangement complementary to the multilateral Convention on International Civil Aviation, (Chicago Convention) of December 1944, which Italy signed on October 31, 1947. The text of the Agreement was in all substantive respects patterned upon the Agreement concluded between the United States and the United Kingdom at Bermuda in February, 1946, although the route schedules annexed to the two agreements reflected the differences in the geographic circumstances and air transport requirements of the United Kingdom and of Italy, respectively. Agreements containing the same Bermuda provisions were concluded by the United States with some 20 other countries in 1946 and 1947, including France and the other wartime allies. The 25 additional

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bilateral agreements entered into by the United States since 1948, including our most recent new agreements, have all been based on the Bermuda pattern. In fact, as a result of Italy's denunciation, Italy is the only major aviation country with which the United States does not today have such an air agreement. The operating principles in United States bilateral agreements were recently examined in the course of a review of our aviation policy. This review confirmed the desirability of adhering to these principles in all future agreements.

With respect to routes, it should be noted that Italy was not in a position in 1948 to provide extensive international services. However, the route schedule was amended on two occasions - first in 1950 and then in 1960 - to give Italy significant new route opportunities as its civil aviation capacity and needs increased. The routes that were being operated by Italy under the former Agreement at the time of its termination were of major importance, and permitted Alitalia to become one of the major airlines of the world. It is of particular relevance in this respect that more than one-fourth of Alitalia's total revenues are derived from its services to the United States. Thus, both the substance and the route exchange of the former civil aviation agreement were fully comparable with the air agreements in force between the US and other countries.

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Second, let me offer some observations on the suggestion made that the United States has been less generous to Italy in the matter of routes than it has been to certain third countries. The United States does not believe that such suggestion is confirmed by careful analysis. It should be noted as a basic proposition that an exchange of routes is necessarily different for each pair of contracting countries because of varying geographic and population factors, as well as international traffic flows. After World War II, the United States advocated a much more liberal system for granting international air rights, a system that would have been more akin to the principle of freedom of the seas that underlies maritime services. This proposal was in keeping with the post-war policy of the United States of encouraging the economic revival of its trading partners - in aviation as in other fields. However, the overwhelming majority of nations, including Italy, chose to leave the granting of commercial air rights for bilateral determination. This is the system that now prevails throughout the world.

Since air routes are by nature a franchise to provide commercial air services it is necessary in these bilateral exchanges to strive for a balance in the route opportunities accorded to each side. In recognition of the commercial nature of air services, the United States and other countries use

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potential revenues as the basis for determining whether an agreement is equitable. One important advantage of this method is that it uses a measurable standard in arriving at the equity of the exchange. Substantial balance in revenues ex in the air transport relations of the United States with most of the major civil aviation powers, including the United Kingdom, France, and the Federal Republic of Germany. If the United States-Italian route exchange is to be consistent with other bilateral agreements, it must also meet this test of equivalent values.

As noted above, the specific routes exchanged in each bilateral agreement will vary depending on the geophysical and demographic characteristics of the parties to each. France and the United Kingdom, because of a large number of associated territories around the world, are able to offer the United States air routes in many diverse markets and are entitled to obtain commensurate routes from the United States in return. The Federal Republic of Germany does not have associated overseas territories and its route exchange with the United States is consequently not as extensive as our route exchange with the United Kingdom or France. The rights that Germany enjoys in the United States are, however, reciprocated by rights enjoyed by the United States in a large number of important air traffic centers in Germany and by unlimited rights beyond Germany. Moreover, Germany does not impose capacity

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carriers. We were consequently disappointed and perplexed when the Italian negotiators refused the offer. Nevertheless, we continue to be willing to consider other solutions to Alitalia's route needs, consistent with the concept of overall economic balance which underlies our bilateral relations with other civil aviation partners.

I am sending these views to you in the hope that these clarifications will lead to the reestablishment of mutually beneficial and satisfactory air transport relations. The United States Government would be pleased to receive the views of the Italian Government on how this objective might be attained. Since air transport is essentially a technical commercial and economic problem, I would expect that discussions on a new agreement would in due course be undertaken between appropriate officials of our two governments. It may, however, be useful for an initial exchange of views to be conducted through diplomatic channels before entering into formal negotiations.

Sincerely yours,

Dean Rusk

2. Department does not plan to make this letter public or to issue release but has no objection to release by GOI.

3. Please advise when letter transmitted and immediate reaction, if any, of Fanfani.

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